

## Message Text

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TO SECSTATE WASHDC 0000  
INFO AMCONSUL BOMBAY  
AMCONSUL CALCUTTA  
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EO 11652: NA  
TAGS: ECON, IN  
SUBJ: THE INDIAN ECONOMY: NOT LOOKING QUITE AS GOOD

SUMMARY. AS GOI PREPARES ITS ANNUAL ECONOMIC SURVEY, A DOCUMENT USED BY LOK SABHA IN CONSIDERING THE GOI BUDGET, PRELIMINARY INDICATIONS ARE THAT THE FIGURES WILL SHOW A CONSIDERABLE SLACKENING OF ECONOMIC GROWTH THIS FISCAL YEAR. WHILE SOME OF THIS IS DUE TO THE STATISTICAL PROBLEM OF AN AVERAGE YEAR FOLLOWING A GOOD ONE, SOME IS ALSO DUE TO A POORER PERFORMANCE THAN ORIGINALLY ESTIMATED. AGRICULTURE PRODUCTION THIS CROP YEAR IS EXPECTED TO BE DOWN 5-6 PERCENT FROM LAST YEAR'S RECORD HARVEST BECAUSE OF DELAYED AND UNEVEN RAINS. INDUSTRIAL PRODUCTION IN 1976-77 IS NOW EXPECTED TO INCREASE BY ONLY 5-7 PERCENT. IN ADDITION, PRICES CONTINUE TO INCREASE, CAUSING CONCERN EVEN IN PUBLIC STATEMENTS OF GOI OFFICIALS. AS A RESULT, INDIA'S GDP MAY SHOW LITTLE, IF ANY, GROWTH IN 1976-77, AND IT IS DOUBTFUL IF SOME MAJOR TARGETS OF THE FIFTH FIVE YEAR PLAN CAN BE FULFILLED ONLY THE OUTLOOK FOR THE

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EXTERNAL ECONOMIC SECTOR REMAINS BRIGHT. THE TIMING OF THE NEXT BUDGET PRESENTATION IN THE LOK SABHA, HOWEVER, IS SUCH THAT THESE LOWER GROWTH FIGURES ARE NOT LIKELY TO BE PUBLISHED BY THE GOI BEFORE THE COMING ELECTIONS.

END SUMMARY.

1. AGRICULTURAL OUTPUT: WE NOW ESTIMATE THAT TOTAL AGRI-

CULTURAL PRODUCTION IN 1976-77 WILL BE LOWER BY 5-6 PERCENT IN COMPARISON WITH 1975-76. FOODGRAIN OUTPUT IS EXPECTED TO BE DOWN TO 107-112 MILLION MT (COMPARED TO 120.8 MILION MT LAST YEAR) BECAUSE OF THE ERRATIC BEHAVIOR OF THE 1976 SUMMER MONSOON AND INSUFFICIENT POST MONSOON RAINS SO FAR THIS WINTER. OUTPUT OF SOME CASH CROPS, PARTICULARLY GROUNDNUTS, IS ALSO EXPECTED TO BE LESS THAN LAST CROP YEAR (JULY-JUNE).

2. INDUSTRIAL PRODUCTION. THE INDUSTRIAL PRODUCTION INDEX REACHED A HIGH POINT OF 139 LAST MARCH AND SINCE THEN (APRIL UP TO OCTOBER 1976, LATEST MONTH AVAILABLE) IT HAS AVERAGED 128. WE ARE NOW THINKING IN TERMS OF 1976-77 INDUSTRIAL GROWTH OF CLOSER TO 6 PERCENT, RATHER THAN 8-10 PERCENT FORMERLY FORECAST. INSUFFICIENT DEMAND, TROUBLES IN THE COTTON TEXTILE INDUSTRY (NEW DELHI A-005) AND POWER SHORTGES (MOSTLY DUE TO INSUFFICIENT RAINFALL) NOW AFFECTING NINE STATES HAVE BEEN MAJOR REASONS FOR FALTERING INDUSTRIAL PRODUCTION. PRIORITY OF LIMITED POWER SUPPLY IS GIVEN TO AGRICULTURAL SECTOR, NECESSITATING POWER CUTS FOR MANY INDUSTRIAL FIRMS.

3. OVERALL ECONOMIC GROWTH. ON THE BASIS OF OUR ESTIMATES OF THE ABOVE TWO SECTORS (ACCOUNTING FOR AROUND 60 PERCENT OF TOTAL OUTPUT), WE EXPECT THAT THERE WILL BE LITTLE, IF ANY, GROWTH IN INDIA'S GDP DURING 1976-77. THIS ECONOMIC PERFORMANCE IS CLEARLY INSUFFICIENT AND MAKES IT DOUBTFUL THAT THE GOI WILL BE ABLE TO FULFILL MAJOR FIFTH PLAN TARGETS. GDP GROWTH, FOODGRAIN OUTPUT, INDUSTRIAL LIMITED OFFICIAL USE

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PRODUCTION).

4. PRICE INCREASES. BY THE END OF DECEMBER 1976 THE WHOLESALE PRICE INDEX HAD INCREASED BY 8.5 PERCENT IN THE PREVIOUS TWELVE MONTHS. WE NOW ESTIMATE THAT WHOLESALE PRICES THIS INDIA'S FISCAL YEAR WILL RISE BY ABOUT 12 PERCENT ON A 12 MONTH POINT TO POINT BASIS (END MARCH 1977 COMPARED TO END MARCH 1976). SEVERAL COMMODITIES, NOTABLY COTTON, VEGETABLE OIL, SUGAR AND GROUNDNUTS, HAVE BEEN MAJOR CONTRIBUTORS TO THE RISE IN THE INDES. THERE HAS ALSO BEEN A SUBSTANTIAL INCREASE IN THE MONEY SUPPLY (14 PERCENT DURING 1976), MAINLY BECAUSE OF FOOD PROCUREMENT CREDIT AND HIGHER FOREIGN EXCHANGE EARNINGS. THE GOI, CLEARLY WORRIED ABOUT THESE DEVELOPMENTS, HAS RECENTLY TAKEN TEPS TO RESTRICT BANK CREDIT FURTHER (NEW DELHI 652), BUT THEY DO NOT AFFECT THE MAJOR REASONS FOR THE RISE IN THE MONEY SUPPLY AND IT REMAINS TO BE SEEN WHETHER THIS TIGHTENING OF THE SCREWS WILL STOP THE UPWARD PRICE MOVEMENT. WE EXPECT SOME (BUT NOT A

SIGNIFICANT) RISE IN PRICES IN THE NEXT FEW MONTHS. ALSO, THE CREDIT SQUEEZE COULD DISCOURAGE NEW PRIVATE SECTOR INVESTMENT.

5. EXTERNAL ECONOMIC SECTOR. INDIA'S BALANCE OF PAYMENTS SITUATION REMAINS VERY SATISFACTORY. EXPORTS CONTINUE TO INCREASE SUBSTANTIALLY AND COULD REACH AROUND RS 47 BILLION (APPROXIMATELY \$5.3 BILLION AT RS 8.80 EQUALS \$1) THIS FISCAL YEAR. WE ARE PRESENTLY PROJECTING THE TRADE DEFICIT IN 1976-77 AT A FAIRLY NEGLIGIBLE \$200-300 MILLION. GROSS FOREIGN EXCHANGE RESERVES NOW STAND AT OVER \$3 BILLION (NEW DELHI 791) AND ARE EXPECTED TO RISE FURTHER IN THE COMING MONTHS. HOWEVER, THE GOI DOES NOT YET APPEAR TO HAVE A COHERENT POLICY FOR UTILIZING THESE RESERVES TO PROMOTE MORE RAPID ECONOMIC DEVELOPMENT.

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6. COMMENT. BECAUSE OF THE RECORD FOODGRAIN HARVEST LAST YEAR, BY COMPARISON THIS YEAR'S ECONOMIC PERFORMANCE DOES NOT PROMISE TO BE VERY GOOD FROM A STATISTICAL POINT OF VIEW. OVERALL, ECONOMIC CONDITIONS HAVE BEEN RELATIVELY SATISFACTORY IN 1976-77, ALTHOUGH VERY RECENT INDICATORS ARE BEGINNING TO SHOW THAT THE ECONOMY IS REVERTING BACK TO AN UNSATISFACTORY GROWTH PATTERN. THE GOI WILL UNDOUBTEDLY ACCENTUATE THE POSITIVE (PARTICULARLY THE GOOD ECONOMIC PERFORMANCE IN 1975-76) AS IT PREPARES FOR THE MARCH ELECTIONS, AND IT WILL BE INTERESTING TO SEE HOW ITS PUBLICITY WILL MINIMIZE THE UNFAVORABLE ECONOMIC SIGNALS. BECAUSE THE BUDGET AND THE ECONOMIC SURVEY WILL BE PRESENTED TO THE NEW LOK SABHA, THE GOI WILL NOT HAVE TO PUBLISH THIS FISCAL YEAR'S LOWER GROWTH FIGURES BEFORE THE ELECTIONS. AS EVER, FUNDAMENTAL ECONOMIC PROBLEMS REMAIN - DEPENDENCE ON THE MONSOONS, STRUCTURAL IMBALANCES IN THE AGRICULTURAL AND INDUSTRIAL SECTORS, LACK OF DEMAND, INSUFFICIENT INVESTMENT, UNEMPLOYMENT, ETC. WE BELIEVE THAT, AS THE LATEST ECONOMIC FIGURES BECOME MORE WIDELY KNOWN, THERE WILL BE INCREASING CRITICISM BY INDIA'S ECONOMIC OBSERVERS THAT THE GOI HAS NOT REALLY USED THE ECONOMIC AND POLITICAL BREATHING SPACE OF THE PAST 18 MONTHS TO BEGIN TO TACKLE IN ANY MEANINGFUL WAY THESE MAJOR PROBLEMS.  
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